

FEDERAL RESERVE SYSTEM

The Royal Bank of Scotland plc
Edinburgh, Scotland

Order Approving Establishment of a Branch

The Royal Bank of Scotland plc (“Bank”), Edinburgh, Scotland, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under sections 5(a) and 7(d) of the IBA¹ to establish a branch in Greenwich, Connecticut. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in newspapers of general circulation in Greenwich, Connecticut (*Greenwich Time*), and Stamford, Connecticut (*The Advocate*), on November 3, 2006. The time for filing comments has expired, and all comments received have been considered.

Bank, with total assets of \$1.6 trillion, is the second largest commercial bank in the United Kingdom.² Bank is wholly owned by The Royal Bank of Scotland Group plc (“RBS Group”), Edinburgh, Scotland. RBS Group’s shares are widely held, with no shareholder or group of shareholders controlling more than 5 percent of shares. Bank provides a variety of banking services to retail and corporate customers in 27 countries, including the United States.³ In the United States, Bank operates an uninsured state branch in New York, New York; representative offices in Houston, Texas, and Los Angeles, California; and Greenwich Capital Markets, Inc. (“GCM”),

¹ 12 U.S.C. §§ 3103(a) and 3105(d).

² Asset data are as of September 30, 2006.

³ Bank also conducts banking activities through its subsidiary, National Westminster Bank Plc, London, United Kingdom.

Greenwich, Connecticut, a registered broker-dealer specializing in debt capital markets services. Bank also owns Citizens Financial Group, Inc. (“Citizens”), Providence, Rhode Island, a registered bank holding company with \$163 billion in consolidated assets.⁴ Bank is a qualifying foreign banking organization under Regulation K.⁵

The establishment of the Greenwich branch is the first component in a long-range plan to relocate Bank’s U.S. branch and GCM to the same location. After completion of a new corporate headquarters in Stamford, Connecticut, in late 2008 or early 2009, Bank expects to move the Greenwich branch and GCM to Stamford.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside of the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisor.⁶ The Board also considers additional standards set forth in the IBA and Regulation K.⁷

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess

⁴ Asset data are as of September 30, 2006.

⁵ 12 CFR 211.23(b).

⁶ 12 U.S.C. § 3105(d)(2); 12 CFR 211.24. In assessing this standard, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank’s financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board’s determination.

⁷ 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3).

the application through submissions that address the relevant issues. With respect to supervision by home country authorities, the Federal Reserve previously has determined that Bank is subject to home country supervision on a consolidated basis.⁸ There has been no material change in the manner in which Bank is supervised by the Financial Services Authority (“FSA”). Based on all the facts of record, it has been determined that Bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The Board has also taken into account the additional standards set forth in section 7 of the IBA and Regulation K.⁹ The FSA has no objection to Bank’s establishment of the proposed branch.

The United Kingdom’s risk-based capital standards are consistent with those established by the Basel Capital Accord. Bank’s capital is in excess of the minimum levels that would be required by the Basel Capital Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. In addition, Bank has established controls and procedures for the proposed office to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

⁸ The Royal Bank of Scotland Group plc, 89 Federal Reserve Bulletin 386 (2003).

⁹ See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3). These standards include: whether the bank’s home country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; whether the appropriate supervisors in the home country may share information on the bank’s operations with the Board; whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank’s record of operation.

The United Kingdom is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering. In accordance with these recommendations, the United Kingdom has enacted laws and created legislative and regulatory standards to deter money laundering. Money laundering is a criminal offense in the United Kingdom, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Bank has policies and procedures to comply with these laws and regulations. Bank's compliance with applicable laws and regulations is monitored by Bank's internal auditors and the FSA.

With respect to access to information about Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. RBS Group and Bank have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, RBS Group and Bank have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that RBS Group and Bank have provided adequate assurances of access to any necessary information that the Board may request.

With respect to the interstate aspect of this proposal, section 5(a)(2) of the IBA, as amended by section 104 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994,¹⁰ authorizes a foreign bank to establish and operate a de novo

¹⁰ 12 U.S.C. § 3103(a)(2).

state branch in a state outside its home state subject to certain requirements. The proposal complies with the requirements of section 5(a)(2) of the IBA.¹¹ The Board has determined that all the other criteria referred to in section 5(a)(3) of the IBA, including the criteria in section 7(d) of the IBA, have also been met.¹² Accordingly, the proposed transaction is consistent with the requirements of section 5 of the IBA.

Based on the foregoing and all the facts of record, Bank's application to establish the proposed branch is hereby approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board. Should any restrictions on access to information on

¹¹ Section 5(a)(2) of the IBA authorizes a foreign bank to establish and operate a de novo state branch outside its home state to the extent that a state-chartered bank with the same home state as the foreign bank may do so under section 18(d)(4) of the Federal Deposit Insurance Act ("FDIA"). The Federal Deposit Insurance Corporation has authorized state nonmember banks to establish de novo state branches outside their home state, pursuant to section 18(d)(4) of the FDIA, when the two states involved permit de novo entry on a nationwide reciprocal basis. Connecticut and Rhode Island permit de novo entry on a nationwide reciprocal basis.

¹² Section 5(a) of the IBA also requires that certain conditions in section 44 of the FDIA be met in order for the Board to approve an interstate branching transaction. See 12 U.S.C. § 3103(a)(3)(C) (referring to sections 44(b)(1), 44(b)(3), and 44(b)(4) of the FDIA, 12 U.S.C. §§ 1831u(b)(1), (b)(3), and (b)(4)). The Board has determined that Bank is in compliance with state filing requirements. Bank was adequately capitalized as of the date the application was filed, and on consummation of this proposal, Bank would continue to be adequately capitalized and adequately managed. The Board has determined, after consultation with the Secretary of the Treasury, that the financial resources of Bank are equivalent to those required for a domestic bank to receive approval for interstate branching under section 44 of the FDIA. The Board also must take into account community reinvestment considerations, including the record of Bank's domestic insured depository institutions, under the Community Reinvestment Act ("CRA"). See 12 U.S.C. § 3103(a)(3)(C); 12 U.S.C. § 1831u(b)(3). Bank's domestic insured depository institutions, owned through Citizens, each received "outstanding" or "satisfactory" ratings at its most recent CRA performance evaluations by the appropriate federal regulators. Based on all the facts of record, the Board concludes that community reinvestment considerations are consistent with approval.

the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of the application also is specifically conditioned on compliance by Bank with the conditions imposed in this order and the commitments made to the Board in connection with this application.¹³ The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with this decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective April 26, 2007.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹³ The Board's approval of this application does not supplant the authority of Connecticut to license the proposed office of Bank in accordance with any terms or conditions that it may impose.